

Equity Research | China | Glass

9 December 2016

## New headquarter for global expansion

- Xinyi Glass ("Xinyi") has acquired a plot of land with a total site area of 13,675 sqm in Qianhai, where it intends to build a new headquarters to cope with global development.
- On the core operation, management expects the margins uptrend will likely be sustainable through 2017, with increasing contributions coming from its Malaysia project.
- Reiterate BUY and maintain price target of HKD8.0, representing 9.0x FY17E PER.

**Potential benefits of establishing new headquarters in Qianhai.** Xinyi is paying RMB30,096/sqm according to the construction plan with a total GFA of 62,000sqm, assuming a plot ratio of 4.53 to the existing site area. According to management, this site costs only half of the current market value of the surrounding commercial buildings. Based on the monthly market rent in Shenzhen's Qianhai financial district, this project could offer an estimated 7.5% yield if we assume an all-in investment cost of RMB40,000/sqm. Xinyi plans to set up its new headquarters here to oversee its China and Malaysia operations.

**Project to be fully funded by cash on hand.** According to CEO Mr. Tung Ching Sai, the investment would be carried over three years and will be fully funded by the cash on hand, and it won't change the existing dividend policy. Based on our estimation, net gearing would increase to 34.9% from 23.9% as at end-2017, but remain healthy compared to the historical level.

**Expect solid margins for major products in 2H16.** Management guided that the rising costs would be passed onto the end-users through higher glass product prices. The glass futures price on the Zhengzhou Commodity Exchange has gained 16% since the fourth quarter. By segments, float glass and construction glass posted record high sales volumes, while auto glass margins have further improved on higher capacity utilisation.

**Increasing contributions to come from Malaysia project in 2017.** Xinyi's Malaysia high-quality float glass project is scheduled to commence production in 1Q17. Management expects strong growth potentials for the market as the supply shortage of float glass in Malaysia shall remain as well as rising import demand from Taiwan.

**Maintain BUY rating and PT of HKD8.0.** XYG is trading at the low-end of the PBR band during 2011 and 2016. As we have no major change on our estimate. Pegging to 2.0x FY17E PBR, we maintain our price target at HKD8.0, representing merely 9.0x FY17E PER and an estimated dividend yield of 7.3% in FY17F.

## Xinyi Glass (868 HK)

### Buy

(unchanged)

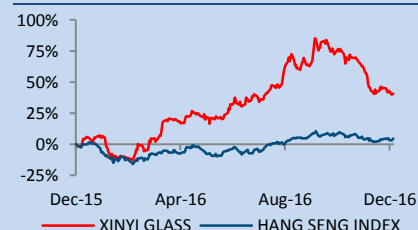
<b>Price Target</b>	<b>HK\$8.0</b>
(Revision)	(-%)
(up/downside)	(31.3%)

EPS	2016E	2017E
revision	N/A	(-0.4%)

Close price	HKD6.09
Market cap.	HKD23,700 mn
Free float	45.56%
52-week range	HKD3.25 – 7.73
3-mth ave. T/O	HKD86.11 mn

Price as of 8 December 2016

### Stock rel HSI performance (%)



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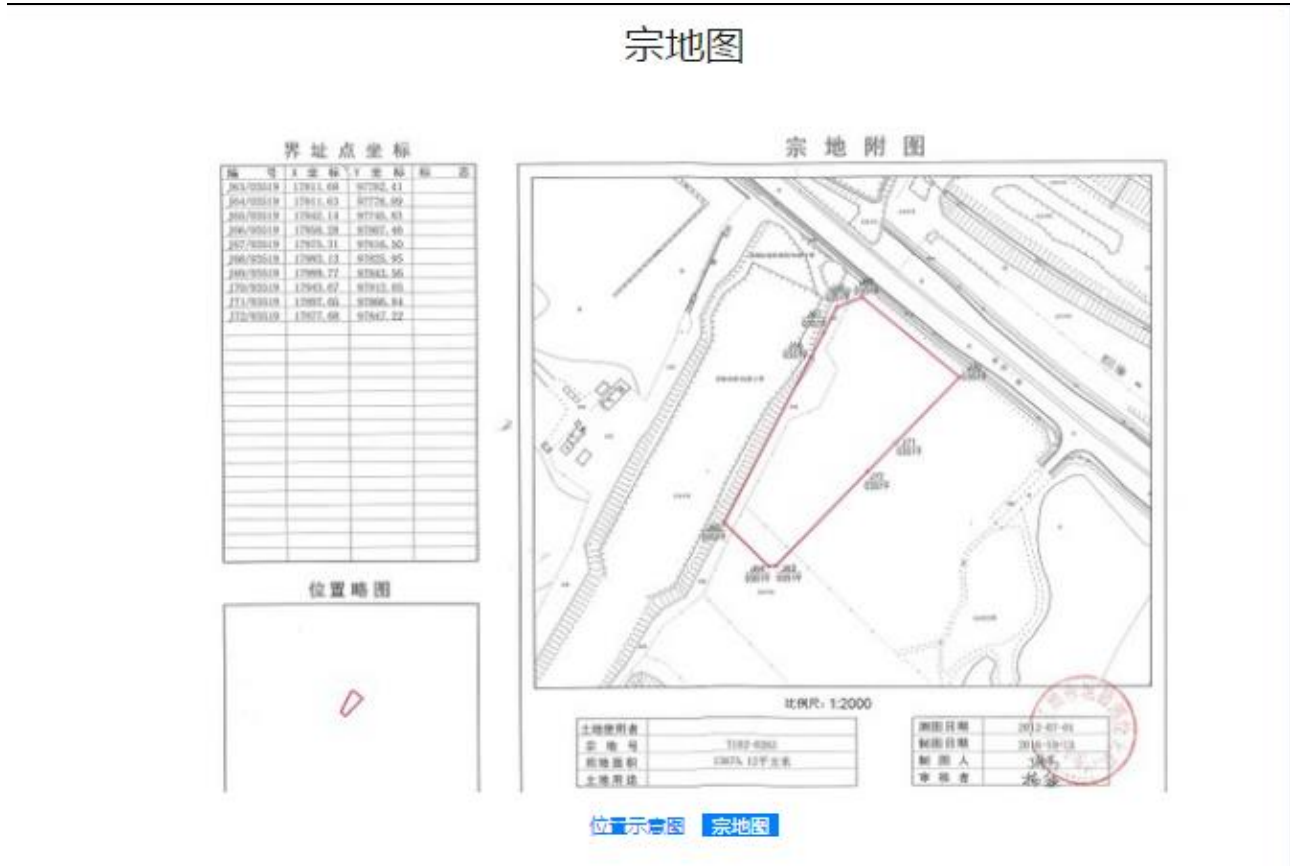
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Figure 1: T102-0263 land parcel



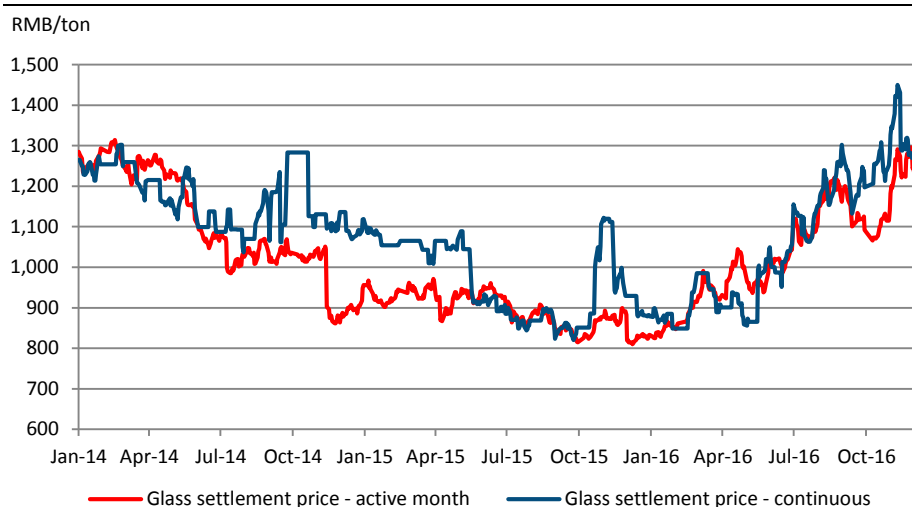
Source: Shenzhen Land & Real Estate Exchange Center

Figure 2: Map of the acquired landbank



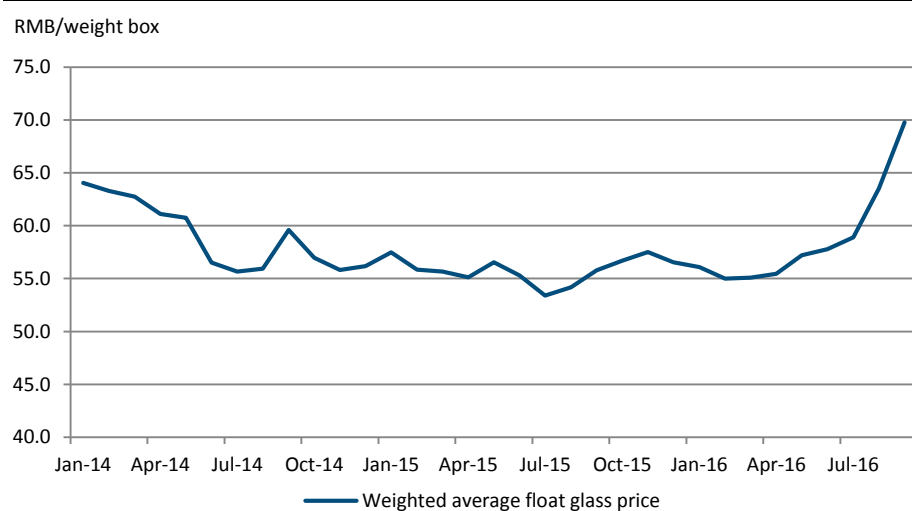
Source: Shenzhen Land & Real Estate Exchange Center

**Figure 3: China's glass futures price**



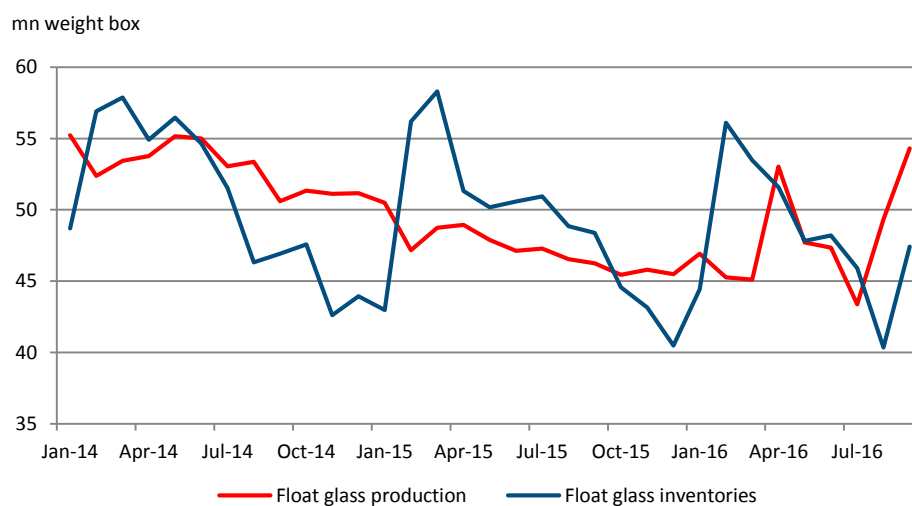
Source: Zhengzhou Commodity Exchange

**Figure 4: China's float glass spot price**



Source: Glass.org

**Figure 5: China's float glass production and inventories**



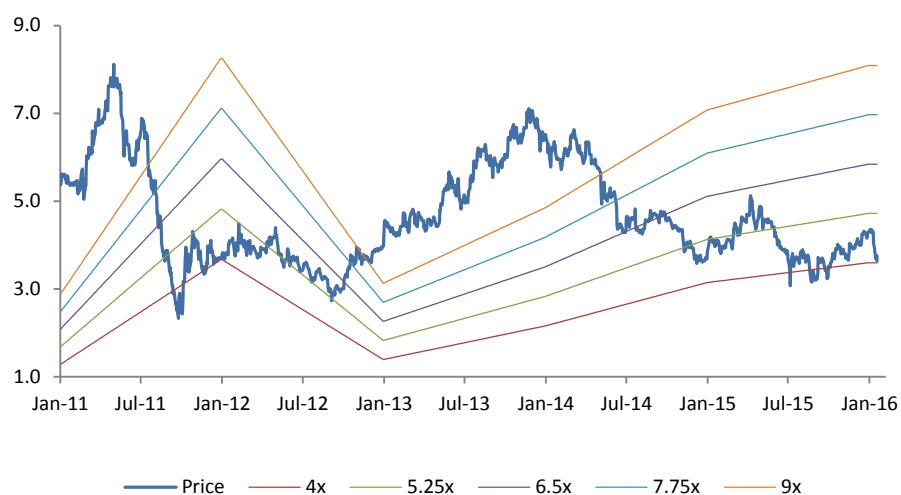
Source: Wind

Figure 6: PBR band



Source: Bloomberg, CSCI Research estimates

Figure 7: PER band



Source: Bloomberg, CSCI Research estimates

Figure 8: Peer valuation

Company	Ticker	Ccy	Close (Local\$)	Mkt cap (US\$b)	2016E	PER (x)	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
<b>Glass</b>																	
PPG INDS INC	PPG US	USD	98.2	25.9	16.6	5.4	4.1	8.0	5.1	5.0	313	38.0	112	10.7	16	53.1	
ASAHI GLASS CO	5201 JP	JPY	826.0	8.6	26.3	19.7	(17.5)	33.2	10	0.9	3.4	4.9	6.3	5.9	2.2	29.2	
FUYAO GLASS IN-H	3606 HK	HKD	22.2	6.8	16.1	14.4	16.0	12.9	2.7	2.5	17.6	18.4	9.6	8.3	3.7	1.8	
FUYAO GLASS-A	600660 CH	CNY	18.3	6.8	15.4	13.7	14.3	12.4	2.5	2.4	17.3	18.2	9.7	8.4	4.4	2.2	
CSG HOLDING CO-A	000012 CH	CNY	12.4	3.0	28.1	22.8	56.5	22.6	2.8	2.7	10.4	12.3	13.7	10.8	N/A	N/A	
XINYI GLASS	868 HK	HKD	5.7	2.9	7.3	6.4	54.1	14.4	1.6	1.4	218	22.4	7.1	6.3	6.7	34.0	
NIPPON ELEC GLAS	5214 JP	JPY	654.0	2.9	53.2	24.5	(26.6)	118.2	0.7	0.6	12	2.6	6.0	5.6	2.4	(6.7)	
XINYI SOLAR HLDS	968 HK	HKD	2.6	2.2	8.7	6.7	57.1	28.6	2.3	1.8	30.0	31.4	7.2	5.5	5.1	49.9	
TAIWAN GLASS IND	1802 TT	TWD	13.4	1.2	(46.9)	(4219)	N/A	(90.0)	0.8	0.8	N/A	N/A	N/A	N/A	N/A	N/A	
SHANGHAI YAOH-A	600819 CH	CNY	7.5	0.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
NIPPON SHEET GLA	5202 JP	JPY	912.0	0.7	(16)	16.1	(11473.2)	(10.5)	0.7	1.1	-35.2	5.9	6.7	6.8	-	N/A	
FLAT GLASS GROUP	6865 HK	HKD	18	0.4	4.9	4.8	N/A	3.1	0.8	0.8	18.7	20.2	2.4	2.1	4.5	N/A	
LUOYANG GLASS-H	1108 HK	HKD	5.2	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
LUOYANG GLASS-A	600876 CH	CNY	N/A	0.4	N/A	N/A	(76.2)	37.5	N/A	N/A	4.5	6.2	N/A	N/A	N/A	N/A	
CHINA GLASS HLDG	3300 HK	HKD	0.9	0.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
XINYI AUTOMOBILE	8328 HK	HKD	14	0.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Average					11.6	(25.2)	(149.1)	7.5	19	1.8	110	16.4	8.0	7.0	3.4	23.4	

Source: Bloomberg

Figure 9: Xinyi Glass

Income statement (HKD mn)						Cash flow statement (HKD mn)					
Year end: Dec	2014	2015	2016E	2017E	2018E	Year end: Dec	2014	2015	2016E	2017E	2018E
Revenue	10,861	11,460	13,321	14,773	15,770	EBIT	1,631	2,430	3,713	4,290	4,604
COGS	(8,128)	(8,328)	(8,551)	(9,509)	(10,167)	Depreciation & amortisation	644	795	684	818	882
Gross profit	2,733	3,133	4,771	5,264	5,603	Net interest	38	50	76	80	78
Selling expenses	(608)	(680)	(790)	(876)	(935)	Taxes paid	(228)	(266)	(407)	(631)	(679)
General and administrative	(1,030)	(935)	(1,087)	(1,205)	(1,287)	Changes in working capital	(202)	375	(624)	(228)	(157)
Other opex	398	594	226	506	540	Others	(428)	(772)	(152)	(160)	(156)
<b>EBITDA</b>	<b>2,276</b>	<b>3,225</b>	<b>4,396</b>	<b>5,107</b>	<b>5,486</b>	<b>Cash flow from operations</b>	<b>1,455</b>	<b>2,612</b>	<b>3,289</b>	<b>4,168</b>	<b>4,572</b>
Depreciation & Amortization	(644)	(795)	(684)	(818)	(882)	Capex	(1,691)	(1,834)	(1,700)	(3,366)	(2,100)
<b>EBIT</b>	<b>1,631</b>	<b>2,430</b>	<b>3,713</b>	<b>4,290</b>	<b>4,604</b>	Acquisitions	(105)	(150)	-	-	-
Interest income	133	112	92	97	109	Disposals	116	292	-	-	-
Interest expense	(171)	(163)	(167)	(177)	(187)	Others	103	152	-	-	-
JVs and associates	138	317	593	601	682	<b>Cash flow from investing</b>	<b>(1,578)</b>	<b>(1,520)</b>	<b>(1,700)</b>	<b>(3,366)</b>	<b>(2,100)</b>
Others	-	-	-	-	-	Dividends	(902)	(608)	(1,573)	(1,742)	(1,873)
<b>Pretax profit</b>	<b>1,593</b>	<b>2,380</b>	<b>3,637</b>	<b>4,210</b>	<b>4,526</b>	Issue of shares	-	-	-	-	-
Taxation	(228)	(266)	(407)	(631)	(679)	Change in debt	1,003	(18)	500	500	500
Minority interests	(1)	(0)	(1)	(1)	(1)	Others	(173)	1	-	-	-
<b>Net profit</b>	<b>1,364</b>	<b>2,113</b>	<b>3,229</b>	<b>3,577</b>	<b>3,846</b>	<b>Cash flow from financing</b>	<b>(72)</b>	<b>(625)</b>	<b>(1,073)</b>	<b>(1,242)</b>	<b>(1,373)</b>
Net profit (adjusted)	1,364	2,113	3,229	3,577	3,846	<b>Change in cash</b>	<b>(195)</b>	<b>467</b>	<b>517</b>	<b>(440)</b>	<b>1,099</b>
Basic EPS (RMB)	0.35	0.54	0.82	0.91	0.98	Free cash flow	(236)	778	1,589	802	2,472
Diluted EPS (RMB)	0.35	0.54	0.82	0.91	0.98						
DPS (RMB)	0.15	0.26	0.40	0.44	0.48						

Balance sheet (HKD mn)						Key ratios					
Year end: Dec	2014	2015	2016E	2017E	2018E	Year end: Dec	2014	2015	2016E	2017E	2018E
Cash	831	1,298	1,815	1,375	2,473	<b>Operating ratios</b>					
Short term investments	-	-	-	-	-	Gross margin	25.2	27.3	35.8	35.6	35.5
Accounts receivables	2,487	2,381	2,829	3,138	3,350	EBITDA margin (%)	21.0	28.1	33.0	34.6	34.8
Inventory	1,478	1,223	1,387	1,542	1,649	Effective tax rate (%)	14.3	11.2	11.2	15.0	15.0
Other current assets	9	93	93	93	93	Revenue growth (%)	9.3	5.5	16.2	10.9	6.7
<b>Total current assets</b>	<b>4,805</b>	<b>4,995</b>	<b>6,124</b>	<b>6,148</b>	<b>7,565</b>	Net income growth (%)	(61.3)	55.0	52.8	10.8	7.5
PP&E	11,293	11,971	12,987	15,536	16,754	EPS growth adj (%)	(57.7)	54.9	52.8	10.8	7.5
Intangible Assets	1,990	1,453	1,453	1,453	1,453	DPS growth (%)	(78.0)	74.9	52.8	10.8	7.5
Total investments	2,793	2,972	2,972	2,972	2,972	<b>Efficiency ratios</b>					
Other long term assets	153	30	30	30	30	ROE (%)	10.1	14.8	20.2	20.9	20.2
<b>Total long term assets</b>	<b>16,229</b>	<b>16,426</b>	<b>17,443</b>	<b>19,991</b>	<b>21,209</b>	Asset turnover (x)	0.5	0.5	0.6	0.6	0.5
<b>TOTAL ASSETS</b>	<b>21,034</b>	<b>21,422</b>	<b>23,567</b>	<b>26,139</b>	<b>28,774</b>	Op cash / EBIT (x)	0.9	1.1	0.9	1.0	1.0
Short term debt	2,529	2,514	2,723	2,931	3,140	Depreciation / CAPEX (x)	0.4	0.4	0.4	0.2	0.4
Accounts payables	1,978	2,112	2,100	2,336	2,497	Accounts receivable days	79.7	77.5	77.5	73.7	75.1
Other current liabilities	294	333	333	333	333	Accounts payable days	83.6	89.6	89.9	85.1	86.7
<b>Total current liabilities</b>	<b>4,801</b>	<b>4,959</b>	<b>5,155</b>	<b>5,599</b>	<b>5,969</b>	<b>Leverage ratios</b>					
Long term debt	3,483	3,514	3,806	4,097	4,389	Net gearing (%)	42.0	37.2	32.8	34.9	27.8
Deferred tax	159	159	159	159	159	Net debt / EBITDA (x)	2.3	1.5	1.1	1.1	0.9
Bonds payable	-	-	-	-	-	Interest cover (x)	42.9	48.4	48.9	53.7	59.1
Other long term liabilities	255	63	63	63	63	Current ratio (x)	1.0	1.0	1.2	1.1	1.3
<b>Total long term liabilities</b>	<b>3,898</b>	<b>3,737</b>	<b>4,028</b>	<b>4,320</b>	<b>4,611</b>	<b>Valuation</b>					
<b>TOTAL LIABILITIES</b>	<b>8,699</b>	<b>8,696</b>	<b>9,184</b>	<b>9,919</b>	<b>10,581</b>	PER (x)	17.5	11.3	7.4	6.7	6.2
Shareholders' funds	12,333	12,718	14,375	16,210	18,193	EV/EBITDA (x)	13.0	9.0	6.5	5.8	5.3
Minority interests	2	7	8	9	10	PBR (x)	1.9	1.9	1.7	1.5	1.3
<b>TOTAL LIAB AND EQUITY</b>	<b>21,034</b>	<b>21,422</b>	<b>23,567</b>	<b>26,139</b>	<b>28,774</b>	Dividend yield (x)	2.5	4.3	6.6	7.3	7.8
Net cash / (debt)	(5,381)	(4,730)	(4,718)	(5,654)	(5,055)						

Source: Company, Bloomberg, CSCI Research estimates



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## Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

<b>Buy</b>	12-month absolute total return: $\geq 10\%$
<b>Hold</b>	12-month absolute total return: $> -10\%$ but $< 10\%$
<b>Sell</b>	12-month absolute total return: $\leq -10\%$

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